



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., September 23, 2008. The following members were present:

Chairman Jody B. Olson
Cliff Hayes
Bill Deal
Jeff Cilek

J. Kirk Sullivan was absent and excused. Executive Director Alan H. Winkle, Deputy Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Deputy Attorney General Joanna Guilfooy, Financial Officer James Monroe, and Management Assistant Cheri Campbell were also in attendance. Betsy Griffith handled the electronic projection of materials and documents discussed in the meeting. Other persons attending portions of the meeting were:

Robin Nettinga	IEA
Rod MacKinnon	MPIA
Jim Coleman	Retired Educators
Charlie Brown	Retired Educators
Larry Johnson	EFIB
Brent Nye	Boise School District
Lucinda Smith	BNY Mellon
Robert Schmidt	Milliman
Michael Iacoboni	Milliman
Karen Steffan	Milliman
Jane Buser	BSU
Bruce Reeder	MPIA
Brian McGrath	DBF
Chris Halverson	EFIB
Dennis Fitzpatrick	DBF

Solomon Lee	Clearwater
Doug Bates	Clearwater
Mike Boren	Clearwater
Dave Boren	Clearwater
Tim Dunn	Clearwater
Patrice Perow	PERSI
Rose Marie Sawicki	PERSI
Cecile McMonigle	PERSI
Debbie Buck	PERSI
Judy Aitken	PERSI
Diane Kaiser	PERSI

EXECUTIVE SESSION

Citing Idaho Code §67-2345(a) which authorizes an Executive Session to discuss personnel matters, §67-2345(1)(f) for legal counsel and §67-2345(d) for discussion of records exempt from disclosure by motion duly made by Trustee Deal and seconded by Trustee Cilek and approved unanimously, the Board convened in Executive Session at 8:30 a.m. They reconvened in regular session at 8:50 a.m. During the session, they discussed selection of a new Executive Director and held discussions with legal counsel regarding a proposed resolution of legal issues.

Trustee Cilek made a motion to hire Don Drum as the Executive Director effective October 1, 2008 at an annual salary of \$150,000.00. Motion was seconded by Trustee Deal and approved unanimously.

The Board was fully briefed by legal counsel and staff with regard to a matter involving the sick leave fund and State Street, and the Board has fully considered a resolution proposed and recommended by counsel and staff and finds the resolution is appropriate and acceptable. Trustee Hayes moved to accept staff and legal counsel recommendation to approve the resolution proposed in the form of the agreement presented and that the Board authorize the Chairman to execute the agreement on behalf of the Board. The motion was seconded by Trustee Cilek and approved unanimously.

MINUTES

Approval of the Minutes: By motion duly made by Trustee Cilek and seconded by Trustee Deal, the Board unanimously approved the minutes of the August 26, 2008 and September 8, 2008 meetings as presented.

PORTFOLIO

Monthly Investment Report: Mr. Maynard reviewed the month to date Investment Report dated September 22, 2008. US equity markets dropped over 4% on two separate days, and then rose a similar amount on the announcement of impending federal action at the end of Friday. For the week as a whole, the entire fund dropped only -0.51%, from \$10.51 billion to \$10.47 billion. US equity markets are down around -4.2% for the month, while international and emerging

markets have dropped -7% to -10% for the month, and -15% for the fiscal year to date. Small cap US stocks, particularly value stocks, are doing well. The total fund for the month is down -3.9% for the month to date, and for the fiscal year is down -5.3%, at \$10.34 billion.

The fund is behind the strategic benchmark (55% US equity (Russell 3000), 15% international equity (EAFE), and 30% investment grade fixed income (Lehman Aggregate)), by -0.76%. As opposed to previous years, active US equity management is adding to returns, but has been more than offset by the weight to international markets embedded in the global equity mandates and the emerging market bias. Tukman, and Mountain Pacific actually have both positive absolute returns and very strong relative returns. The worst absolute return is from Bernstein Emerging, with the worst relative returns from Bernstein Global and Emerging and Adelante. Western fixed income is still struggling.

Hamilton Lane Private Equity: Paul Yett with Hamilton Lane reviewed the Private Equity 1st Quarter Performance Update which was previously distributed to the Board. The Portfolio experienced a slight decrease in since-inception IRR (66 bps) during the first quarter of 2008 that was attributable to a net depreciation in the value of the underlying portfolio companies. The Portfolio's market value continues to grow quarter over quarter as the Portfolio's underlying partnerships continue to draw down capital for investments in various portfolio companies. This is primarily due to an increase in paid-in capital as the Net Value Change for the quarter was \$6.3 million.

During the first quarter of 2008, PERSI made commitments to two new relationships, Advent International VI and EPIC Venture Fund IV (FKA Wasatch). The Portfolio is well balanced among Buyout sub-strategies, with exposure across the Small (9%), Mid (20%), Large (19%) and Mega (25%) Buyout categories. Over the one-year period there was little change to the Portfolio's diversification, with a 3% increase in the Mid Buyout sub-strategy being the largest change.

During the first quarter of 2008, the Portfolio was cash flow negative in the amount of \$49.9 million, consistent with cash flow activity over the past several quarters.

Investment Manager Comments: Brian McGrath with DBF said he believes this is a good time for the US government to show their key public good and step in to inject help. The 2005 asset valuation bubble was ripe for implosion and we are now in the mist of that implosion. There are no rational or effective market opportunities to pick up assets at a good price. The government could nudge a little but not buy everything up and create a windfall for taxpayers. The action of the government moving in may just correct the market without them actually having to do it.

Dennis Fitzpatrick with DBF stated that no one knows what is going to occur in the near future. The valuation issue depends on what price is paid for assets. If the government moves in an intelligent way they could make a lot of money.

Doug Bates with Clearwater said the scariest thing right now is the issue of liquidity vs solvency. If this is a solvency problem then we could be headed for a black hole. Disconnect between buyers and sellers is helping to show the problems that need to be fixed.

Mike Boren with Clearwater, stated that buying up securities will calm the market but not solve the problem. Assets are being downgraded. The price of risk is up significantly and people are not willing to take that risk. Fear has taken over and they are keeping what they have rather than lending.

Rod MacKinnon with MPIA said the key is where the housing cycle is currently. The government could make a lot of money. Pricing compared to payment is good right now because of rates. The market is weak because people are afraid congress won't pass the bill. The public does not see the connection because a recession has not been declared.

DIRECTOR UPDATES

Preliminary Actuarial Valuation: Robert Schmidt from Milliman presented a short summary of the 2008 preliminary actuarial valuation. On July 1, 2008 the fund was 93.3% funded with an amortization period of 15.6 years. If the Board chooses to award a full 5.4% COLA in March the fund is anticipated to be 91.5% funded with an amortization period of 21.9 years.

The Trustees requested that Mr. Schmidt provide them with a graduated scale of potential COLAs for their education and use in making a COLA decision next month.

Market Value of Liabilities Issue: Karen Steffan with Milliman gave the Board an overview of the potential changes to actuarial value formulation that has become a large debate in the industry.

Director Winkle reported that Governor Otter has written a letter opposing the changes that was submitted to the American Academy of Actuaries.

820 Washington Feasibility Study: Gary Christensen with Christensen Corp presented an update on the expanded feasibility study for a new building at 820 Washington. He presented options for 3 story and 4 story building and "green" or standard building options. Parking is the main concern for the building and for leasing the current building.

The Trustees asked that this topic be carried over to the November meeting to allow them time to review the study and funding.

Executive Director's Status Report: Director Winkle reviewed his Status Report dated September 17, 2008 that was previously distributed to the Board. The report included updates on the status of FRF Funding and COLA; IRS determination letter and actuarial fees.

Weiser County Memorial Hospital employees voted to remain in PERSI and Minidoka County also voted to join PERSI. PERSI staff members Lisa Conn and Mike Mitchell did a great job making presentations to both groups and explaining the PERSI plan.

New Employers: Bear Lake County Fire District, Garden Valley Fire Protection District and Minidoka County have submitted applications to join PERSI. There is no employer entry cost associated with these employers

Trustee Hayes made a motion to accept all three applications with an effective date of October 1, 2008. Trustee Cilek seconded the motion which passed unanimously.

Deputy Director's Status Update: Deputy Director Don Drum provided an overview of the process Administration has begun to improve staff moral, including several third party facilitated listening session. The results from these sessions have become action plans which are being worked on by both management and staff.

Mr. Drum also talked about the current Employer Meetings that are underway around the state.

FISCAL

Fiscal Update: Financial Officer Jim Monroe reviewed the expense reports and status report dated September 15, 2008 that was previously distributed to the members.

Mr. Monroe pointed out that the report also contains some revised pages for the Year End Financial Statements that were provided to the members last month. A mistake in sick leave calculations was discovered that necessitated the revisions.

FUTURE BOARD MEETINGS

A list of proposed Board meeting dates for 2009 was previously distributed to the members. Trustee Cilek requested that the March meeting be moved a week so it does not coincide with spring break. Management Assistant Cheri Campbell asked the Board to consider changing the out-of-town meeting to a month other than May because of Memorial Day. Chairman Olson suggested that the Board eliminate the May meeting and have an out of town meeting in June.

A revised schedule will be presented for approval in November.

Adjournment: There being no further business to come before the Board, meeting adjourned at 11:35 p.m.

Alan H. Winkle
Executive Director

Jody B. Olson
Chairman